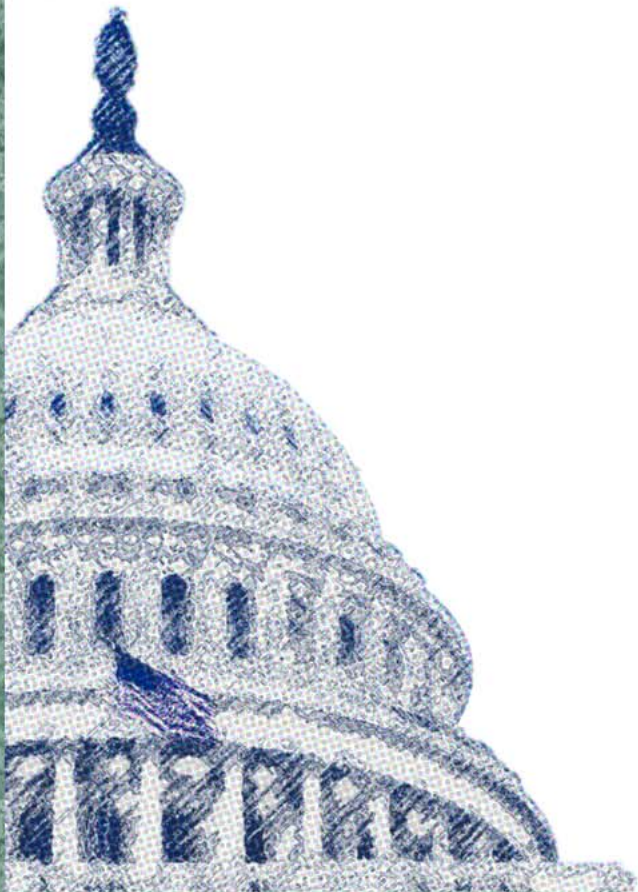


109th Congress
2nd Session



Senate Budget Committee August Recess Packet



August 4, 2006
Prepared by the
U. S. Senate Budget Committee
Republican Staff
<http://budget.senate.gov/republican>

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United States Senate

COMMITTEE ON THE BUDGET

WASHINGTON, DC 20510-6100

August 4, 2006

Dear Republican Colleague:

As we wrap up our legislative business in Washington and return home for the August recess, it is a good time to reflect on our recent accomplishments, as well as our priorities for the remainder of the 109th Congress.

Spurred by pro-growth tax and economic policies enacted by the President and the Republican Congress in recent years, the economy continues to grow at an impressive pace. The economy has expanded for 19th consecutive quarters, resulting in unprecedented job creation and historically low unemployment levels. The strong economy also has triggered a surge in tax receipts, which have contributed to the Congressional Budget Office sharply lowering its FY 2006 deficit projection.

To keep our economy on the right track, we must continue to keep taxes low on American workers and businesses. Despite the other side of the aisle's efforts to keep the death tax in place, we must continue to work to eliminate it and stop penalizing families following the death of a loved one. This tax hits both individuals and business owners, and is not only immoral, but is a hindrance to sustaining business success and economic growth.

We also must not lose sight of our long-term fiscal challenges. The impending retirement of the Baby Boomers and skyrocketing healthcare costs will create a fiscal and demographic tsunami. This is a problem that that we cannot tax our way out of, as the other side of the aisle suggests. With \$66 trillion in unfunded obligations over the next 75 years, entitlement spending must be addressed. My *Stop Over-Spending Act* attempts to put in place a process that will force Congress to make policy decisions in order to ensure that our children inherit a government they can afford.

It's time Congress stopped looking to the next election and instead started focusing on the next generation. When we return in September, I hope the Senate will have an opportunity to engage in a thoughtful and substantive debate on how we can reduce federal spending. If you have any questions regarding the information in this packet, please contact my communications staff at 202-224-6011, or visit the Budget Committee website at budget.senate.gov/republican.

Sincerely,



Judd Gregg
Chairman

PRO-GROWTH POLICIES CREATE JOBS & ECONOMIC EXPANSION

REPUBLICAN PRO-GROWTH TAX POLICIES ENACTED IN 2003 HAVE RESULTED IN UNPRECEDENTED ECONOMIC GROWTH

- The economy has expanded for 19 consecutive quarters.
- GDP increased by 2.5 percent in the second quarter of 2006.
- Business investment increased 2.7 percent in the second quarter of 2006, registering its 13th consecutive quarter of growth.
- Productivity grew at 3.7 percent in first quarter 2006, and U.S. productivity is now at its highest level since World War II, compared to the same point in other business cycles.

THE GROWTH IN THE ECONOMY HAS CREATED MILLIONS OF NEW JOBS

- Since August 2003, the economy has created nearly 5.6 million new jobs.
- The U.S. Labor Department announced that the economy created 113,000 new jobs in July, registering the 35th straight monthly gain in employment.
- The unemployment rate also declined 0.2 percentage points in July, to 4.8 percent, from a year ago.

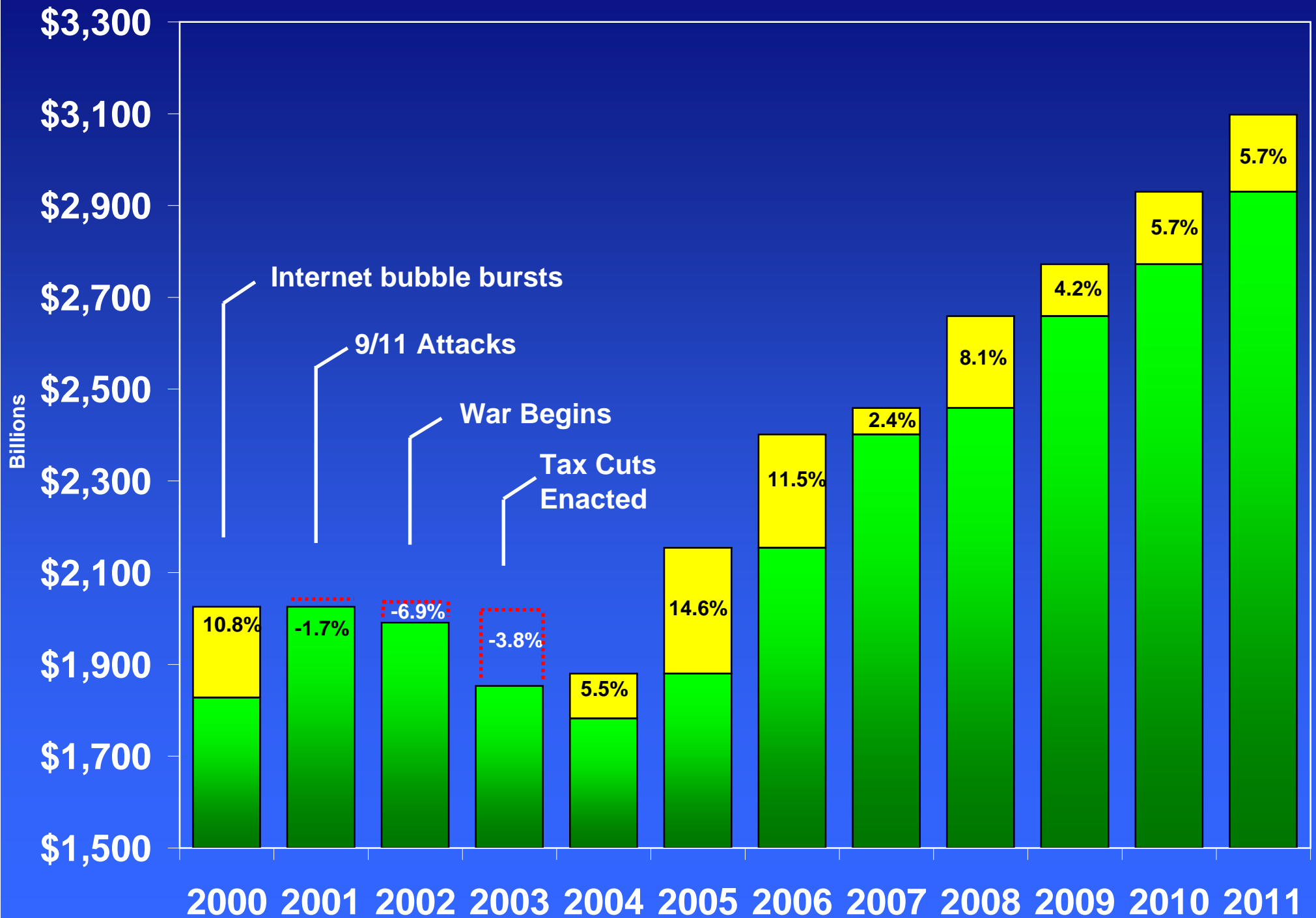
ECONOMIC GROWTH IS BENEFITING AMERICAN FAMILIES

- More Americans are working today than ever before.
- Net worth is at a record \$53.8 trillion, household assets are more than 5 times greater than their liabilities.
- Homeownership has reached all-time highs – more than two-thirds of Americans own their homes today.

ECONOMIC GROWTH AND JOB CREATION HAVE SPURRED DRAMATIC INCREASES IN TAX REVENUE; 2006 DEFICIT PROJECTED TO BE LOWER THAN EXPECTED

- FY 2005 tax revenues increased \$186 billion (adjusted for inflation) over FY 2004, representing a record increase in real terms for the post-war period.
- Fiscal YTD (through June 2006) tax receipts are \$206 billion (12.8%) higher than a year ago.
- Fiscal YTD (through June 2006) individual income tax receipts are up 14.5% over the same period a year ago; corporate tax receipts are up 27.0%.
- CBO's latest estimate of the likely deficit in 2006 is \$260 billion, even reflecting the tax reconciliation bill and the supplemental enacted in May and June, respectively (Senate Budget Resolution \$372 billion).
- CBO attributes much of that improvement to revenue growth.

Economic Growth Propels Revenues



THE DEATH TAX SHOULD BE ELIMINATED

THE DEATH TAX IS FUNDAMENTALLY UNFAIR

- The Death Tax punishes thrift, savings, and hard work. The tax is highest for those who have spent less on themselves and saved more for their family.
- It is double taxation. Most of the assets covered by the Death Tax have already been taxed during the person's lifetime.
- It diverts resources from investment to paying for complex trusts and insurance policies to avoid the tax.

THE DEATH TAX IS AN INEFFICIENT WAY TO COLLECT REVENUE

- Death taxes only account for 1.2% of total federal revenues.
- In 2004, there were 62,718 estate-returns filed, but only 30,276 owed any taxes. 52% of estates who filed a return were required to incur sizeable legal, accounting and other professional expenses even though they owed no tax.
- Estate planning cost for businesses can range from \$5,000 to \$250,000 for family limited partnerships and up to \$1,000,000 for closely held business.
- The IRS estimates it takes 38 hours to complete Form 706, the federal estate return.
- Tax preparation fees can range from \$5,000 to \$50,000.
- Economists Henry Aaron and Alicia Munnell estimated the amount spent on avoiding the death tax is approximately equal to the amount of the tax collected.

THE DEATH TAX IS OPPOSED BY MOST AMERICANS

- In a comprehensive 2005 Tax Foundation survey, conducted by Harris Interactive, 68% of Americans supported repeal of the Estate Tax. The figure rose to 73% of middle income Americans (\$35,000-\$75,000).
- In the same survey, the tax was ranked the "least fair tax" topping even the income tax.

THE DEATH TAX IS OPPOSED BY AMERICAN BUSINESS

- More than 75 national business organizations representing diverse groups of businesses, have called for elimination of the Death Tax
- The organizations include the National Federation of Independent Business, the U.S. Chamber of Commerce, the National Black Chamber of Commerce, the U.S. Hispanic Chamber of Commerce and the National Association of Women Business Owners.

THE UNITED STATES HAS THE THIRD HIGHEST DEATH TAX RATE IN THE WORLD

- The U.S. Death Tax rate is 37 percentage points above the international average of 13%. Twenty-four nations have no Death Tax.

Japan	70%
South Korea	50%
United States	46%
France	40%
U.K.	40%



S.O.S.: STOP OVER-SPENDING ACT OF 2006



SPENDING RESTRAINT - DEFICIT REDUCTION - BUDGET ENFORCEMENT - FISCAL RESPONSIBILITY

- 1. Reinstates Statutory Caps on Discretionary Spending**
- 2. Reduces Deficit as % of GDP Through Gregg Mechanism**
- 3. Improves Line-Item Veto/Expedited Rescission Process**
- 4. Reviews New Entitlement Spending, Via Medicare Trigger**
- 5. Creates Commission on Accountability of Federal Agencies**
- 6. Creates Commission on Entitlement Solvency**
- 7. Includes Biennial Budgeting**
- 8. Reforms Budget Resolution & Reconciliation Processes**



S.O.S.: STOP OVER-SPENDING ACT OF 2006



SPENDING RESTRAINT - DEFICIT REDUCTION - BUDGET ENFORCEMENT - FISCAL RESPONSIBILITY

The Facts on S.O.S.: **A Bi-partisan Entitlement Commission**

Democrats, including Senator Reid, have criticized the Entitlement Commission provision of Senate Budget Committee Chairman Gregg's Stop Over-Spending Act, or S.O.S., for "shredding" Social Security or promoting personal accounts. Nothing could be further from the truth.

What does the Entitlement Commission Do?

The purpose of the bi-partisan, 15-member Entitlement Commission is to review the current and long-term solvency of Social Security, Medicare, and Medicaid. The Commission's only instruction is to ensure the solvency of the Social Security, Medicare and Medicaid programs

Two-thirds of the Commission must agree to the solvency recommendations, before the Commission can report recommendations to Congress.

The Committee's report is subject to amendments both in Committee and on the Floor.

The report is considered under expedited consideration, which ensures 50 hours of debate and a final vote on the measure in the Senate and the House and on the Conference Report should conferees agree.

A 60-vote majority required to proceed to final passage of the report guarantees bipartisanship agreement.

The Entitlement Commission is carefully constructed to allow for bi-partisanship. How?

○ Bi-partisan Appointing Process

The bill that passed the Budget Committee requires that the President, the Speaker, the Senate Majority Leader and the Minority Leaders of the House and Senate each appoint 3 members to the Commission. Importantly, only 2 of these appointees can be from 1 party. At most, the Commission would include 8 Republicans out of 15 members.

○ Bi-partisan Chairmanship

The bill that passed the Budget Committee requires the President to appoint two co-chairmen for the Commission and requires that they be of different parties.

○ Bi-partisan Recommendation

The bill that passed the Budget Committee requires that any recommendations that come out of the Commission be supported by two-thirds of its members. This means at least 10 members of the Commission must support the proposal; more than the number of either party represented.

○ **Bi-partisan Senate Consideration**

At Senator Conrad's suggestion, Chairman Gregg included language in the Manager's Amendment to the bill in Committee requiring a 60 vote motion to recommit prior to final passage of the bill or a conference report guaranteeing bipartisan support for the legislation.

○ **Bi-partisan Amendment Process**

The bill that passed the Budget Committee includes language allowing members on both sides of the aisle to offer amendments to the legislative language that emerges from the Commission.

Why is S.O.S. Important?

○ **The unrestrained growth of the entitlements programs put our future economy at risk.**

By 2030, the cost of Social Security, Medicare and Medicaid alone will exceed the total cost of government today. Specifically, all government expenditures represent about 20% of GDP today. Within the next 25 years, projections show that the total cost of these three programs will exceed 20% of GDP by themselves. Without needed reforms, these enormous increases in spending are likely to lead to some combination of massive tax increases and staggering cuts in other government expenditures like education, defense, the environment, etc.

○ **The looming retirement of the baby-boomers makes passage of this legislation critical.**

The first baby-boomer will retire in 2008. As more and more people retire the burden on the taxpayer will continue to grow. The best way to demonstrate this burden is the ratio of workers to retirees. In 1960, there were 5.1 workers for every retiree. Today, there are 3.3. In 2035, there will be only 2.1 workers for every retiree, increasing the burden by more than 50%.

○ **Without action our children will not be able to afford the current retirement system.**

The taxpayer is already feeling the strain of our rapidly growing entitlement programs. Over the next 10 years, the growth in mandatory spending programs will accelerate and by 2016 will amount to 70% of total government spending. Over the next 10 years:

- Social Security will grow on average 5.8% to \$962 billion.
- Medicare will grow on average 8.5% to \$885 billion.
- Medicaid will grow on average 8% to \$413 billion.

These three programs alone will take up 56% of the total budget in 2016.

○ **Unfunded liability of entitlement programs is enormous and growing.**

However, the current cost of these programs pales in comparison to the unfunded obligations our nation faces. According to experts, these three programs have total unfunded obligation of more than \$56 trillion over the next 75 years. Medicare alone has an unfunded obligation of more than \$32 trillion.

Bottom Line:

The Entitlement Commission included in the *Stop Over-Spending Act* provides a bi-partisan opportunity to accomplish much needed reforms.

THE HILL

OP-ED

Burying their heads in the sand of obstructionism

By Sen. Judd Gregg (R-N.H.)

Last month the Senate Budget Committee passed a package of initiatives, the Stop Over-Spending Act (S. 3521), designed to put our financial house in order and make our government affordable for its citizens, especially the younger people who will be working to support the next generation as it retires.

This package has been grossly misrepresented by the other side of the aisle. They have taken out the bloody shirt of Social Security, waved it at this package in a totally irresponsible manner and shown their unwillingness to step up and debate this issue honestly. That's not governance. That's simply obstructionism for the sake of political gain.

I think it's appropriate to point out what the facts are, versus what they believe the politics should be.

The facts are rather startling. As we face the impending retirement of the baby-boom generation, the largest generation in our history, the cost of supporting the baby boomers that will fall on our children and grandchildren is astronomical. We cannot put obligations on the books that will force the next generation to pay so much in taxes that they will not be able to enjoy the same quality of life that we do. It's not fair to them.

So we tried to address this not by policy changes but by putting in place processes that will force the public policymakers of the legislative and the executive branches to face the existing facts and figures.

And how did the other side of the aisle react? Their immediate reaction was to attack this proposal, even though there is no policy attached to it. It simply has processes that forces policy to occur, and no specific policy at that.

Their response was to attack this proposal as an attack on Social Security — a grossly inaccurate, irresponsible and inappropriate charge made for the purposes of political gain. It seems that the other side of the aisle believes that our children should be faced with a burden that they cannot possibly afford, rather than act now to address the needs of our children, specifically the affordability of the government.

For example, on the bill's creation of a Commission on Entitlement Solvency, the other side has grossly misrepresented the facts and then dusted off the scare tactic of dismantling Social Security.

The commission represents a bipartisan approach to address the well-known fact that the entitlements programs are growing at an unsustainable rate. We have obligations to retirees that will cost \$65 trillion more than the government's income under the present projections. The commission's only instruction is to ensure the solvency of the Social Security, Medicare and Medicaid programs.

If put in place today, the commission would consist of eight Republicans and seven Democrats. Furthermore, it takes two-thirds of the commission — a bipartisan supermajority — to put together a report to be able to be sent to the Senate under expedited procedures, procedures that ensure 50 hours of debate. The legislative provisions in the report can be amended by Democrat and Republican alike. Finally and most notably, it would take 60 votes to pass the report — a bipartisan supermajority of the Senate.

I would like to see this debate on the floor and discuss the issue of paygo — or “taxgo,” as I like to call it, which is one of the proposals from the other side of the aisle. If they want to raise taxes, we should debate that. But no, their response is that this is going to savage, undermine and privatize Social Security — all the words that their pollsters have told them to use to try to get reelected.

What actually is going to be the downfall of Social Security is our generation retiring and our children being unable to cover the massive cost of those benefits. Not only will the program be insolvent but our children are going to be out of luck when they would like to buy a house. Or send their kids to college. Or try to live the good life we've had.

They won't be able to afford it because we will have put an enormous tax burden on them. Because we, during our terms of office, are unwilling to be responsible and address these issues.

The proposal we brought forward is very simple, very responsible, and an attempt to get at the essence of the problem. There is no irresponsibility in this proposal. The irresponsibility is on the other side of the aisle, which has buried its head in the sand of obstructionism.

We are being responsible with the Stop Over-Spending Act, a package that would try to reverse the direction in which we're inevitably heading. However, if we stay on our current course and do nothing, we will eliminate the capacity of our children to afford their government.

I hope we can have an honest, factual debate about the need for budget reform and allow members of the Senate to vote on the merits of this proposal, instead of playing election-year politics.

Gregg is chairman of the Budget Committee.